



Amy G. Rabinowitz  
*Counsel*

May 28, 2003

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station  
Boston, MA 02110

**Re: Initial Comments of Massachusetts Electric Company and Nantucket Electric Company regarding the Monthly Procurement of Default Service Supply for Medium and Large Commercial and Industrial Customers, D.T.E. 02-40B**

Dear Secretary Cottrell:

On behalf of Massachusetts Electric Company and Nantucket Electric Company (collectively "Mass. Electric" or "Company"), I am submitting written comments on the monthly procurement of default service supply for medium and large commercial and industrial customers. We appreciate the opportunity to provide these comments.

### **Technical Implementation**

During the May 15, 2003 Technical Conference, a number of issues and concerns were raised relating to implementing a one month procurement process as mentioned in the Department's April 24, 2003 Order in this docket. In view of these issues and concerns, several of the utility parties proposed that a quarterly procurement process be adopted by the Department. These parties noted that quarterly procurements could aid in achieving the Department's objectives of providing more efficient price signals in a manner consistent with development of the competitive market, and do so in a way that would minimize a number of the issues and concerns that were identified with monthly procurements.

Mass. Electric supports a quarterly procurement process as a reasonable and immediate step that can be taken toward achieving the policy objectives set forth in the Department's April 24 Order. Mass. Electric believes that a quarterly procurement schedule would not require any significant change in how the Company conducts its solicitations currently.

Should the Department elect to require a monthly procurement process, however, Mass. Electric would need to make significant changes in its procurement system and

25 Research Drive  
Westborough, MA 01582-0099  
Phone 508.389.2975  
Fax: 508.389.2463  
amy.rabinowitz@us.ngrid.com

processes in order to effectively manage the monthly procurements. Mass. Electric's proposed monthly procurement process is described in detail below.

In order to implement a monthly procurement process, Mass. Electric must develop certain information technology ("IT") applications to facilitate the transfer of data needed by suppliers to evaluate and price their offerings and to submit their bids. Presently, Mass. Electric estimates the cost to develop these applications at approximately \$100,000.<sup>1</sup> Mass. Electric would request that it be allowed to collect from customers the IT costs and any other costs reasonably incurred in establishing the new system/processes required to conduct monthly Default Service solicitations.

### **Mass. Electric's Proposed Monthly Procurement Process**

In order to conduct monthly Default Service solicitations, Mass. Electric must make changes in the process that is currently used in its semi-annual solicitations. Mass. Electric proposes to use the following process:

(1) Mass. Electric will develop and utilize an internet-based communication tool/website to facilitate communication between it and bidders/potential bidders.<sup>2</sup> Since potential bidders require significant data<sup>3</sup> to enable them to evaluate and submit a bid, and that data must be current, Mass. Electric will need to automate the data retrieval and posting processes that are currently performed manually. This automated system is critical since customers cannot afford to have a failed procurement because data could not be posted in a timely manner. In addition, the automated system would provide the ability to frequently update data, thus enabling suppliers to continually refine their pricing models between bid submission dates.

Mass. Electric estimates that the cost to develop the proposed system is approximately \$100,000 and would take up to eight months from initiation of the project to be fully implemented. As mentioned above, Mass. Electric proposes to recover the costs associated with this project from customers.

(2) Mass. Electric will publicly post a schedule of critical dates associated with each month's procurement. Among other places, this schedule will be posted on the proposed procurement website. Schedules will be posted for at least the next six monthly

---

<sup>1</sup> As a point of reference, Mass. Electric's total purchased power expense for Default Service for calendar year 2002 was approximately \$229 million. Of this amount, \$80 million was associated with service to the industrial customer group.

<sup>2</sup> Unlike other internet-based bidding systems that have been proposed to the Department in prior proceedings, Mass. Electric would not charge potential bidders a fee to use the system nor would it collect from suppliers or require suppliers to pay to other third parties any fee or commission as a condition to using the system, placing a bid or being selected as a winning supplier. Rather, the costs of the system would be recovered from customers as would other Default Service administrative costs.

<sup>3</sup> The list of data typically provided to potential bidders is provided in Attachment 1. This list may be modified over time to address the ongoing needs of the market/bidders.

procurements. As an example, a proposed schedule for the first monthly procurement is found in Attachment 2.<sup>4</sup> This proposed schedule is based on the understanding that the Department's desire is to have Default Service prices be obtained as close to the service period as possible.<sup>5</sup>

(3) Mass. Electric will complete the entire procurement and rate-setting process by the 1<sup>st</sup> of the month prior to the month of delivery (e.g., by June 1 for July deliveries). This completion date enables Mass. Electric to meet (i) the 30-day notice requirement established by the Department<sup>6</sup> and (ii) the current ISO market system contract scheduling requirements.

(4) Mass. Electric will file the results of each solicitation and the resulting retail rates seven business days before the 1<sup>st</sup> of the month prior to the month of delivery. This provides Mass. Electric with two business days following the end of the Department's five business day review period.<sup>7</sup>

(5) Mass. Electric will receive bids on the Tuesday that is at least two business days prior to the date that it files the results of each solicitation and the resulting retail rates.

To avoid the problems associated with too much load being procured in the marketplace at one time, the Department should require all distribution companies to publish and stagger their bid dates so that they are not all procuring Default Service load on the same day. In addition, bid dates for the semi-annual solicitations for Residential and Commercial customers should be scheduled so that they do not conflict with the monthly solicitation dates.

(6) Mass. Electric will receive bids via the internet communication portal that it proposes to implement. The use of the portal will make it easier for bidders to submit complete and timely bids. For example, in addition to pricing information, Mass. Electric requires bidders to provide contact and general corporate information, financial data, and other similar information. Rather than require bidders to resubmit this information each month or have them "submit" the information by reference to a prior bid,<sup>8</sup> the proposed portal will allow all such information to be input once and then "verified" or "updated" for each future submission. By making the bid submission process easier for bidders,

---

<sup>4</sup> The date of the initial monthly procurement assumes an estimated lead-time of eight months to implement the IT applications needed to facilitate the monthly process. As a comparison, Mass Electric has also included examples of schedules for both quarterly and semiannual procurements.

<sup>5</sup> See, e.g., DTE 02-40-B, pp. 36-40.

<sup>6</sup> DTE 99-60-C, p. 7.

<sup>7</sup> DTE 99-60-C, pp. 8-9.

<sup>8</sup> Rather than resubmit information that had been provided in a previous RFP, bidders frequently omit the information in the current submittal and suggest that the Company refer to the information that was provided in previous RFP response (that could have been submitted as much as 6 months or more ago). Rather than requiring the Company to search for the previous submittal, the new process will enable the bidders to verify the accuracy of prior data and resubmit as current information.

Mass. Electric would achieve a more competitive solicitation for its customers and would be sure to have complete, accurate and up-to-date information on each bidder each time a bid is submitted.

(7) Following the receipt and evaluation of bids, Mass. Electric will execute binding contracts with the winning bidder(s). Mass. Electric expects that such contracts will be executed on the day that bids are submitted.

In order to facilitate prompt contract execution following receipt and evaluation of the bids, Mass. Electric will require that each bidder execute a master contract or enabling agreement prior to it being permitted to submit its bid. Mass. Electric will use its current form of draft contract as the master agreement and will consider changes to suit individual supplier needs provided that such changes do not shift risks between Mass. Electric and the supplier or otherwise change the terms of the transaction.<sup>9</sup> Bidders wishing to propose changes to the terms of the master agreement can do so prior to the bid submission date.

The proposed use of master agreements will allow the master agreement terms to be adjusted to reflect changes in marketplace and special circumstances. Such changes could be reflected in amendments to the master agreement or contained within the confirmation agreements that are executed following acceptance of a winning bid.<sup>10</sup>

(8) Mass. Electric will post all information needed by suppliers to evaluate and price their bids on the proposed internet portal.

In summary, Mass. Electric believes that implementing a process of quarterly procurements of Default Service supply for large commercial and industrial customers is a reasonable and immediate step that can be taken towards the Department's Default

---

<sup>9</sup> This negotiation process is similar to that which is in place for current procurements – only the timing and efficiency is changing. Today, Mass. Electric receives proposed contract changes when bidders provide their “indicative” bids, and Mass. Electric must negotiate these changes with multiple bidders during the few days between when indicative bids are received and final, binding bids are received. The new process will require that the contract terms be established prior to the receipt of the final, binding bids and that no negotiations will take place once bids are submitted.

<sup>10</sup> The Department's regulations provide for the Department to initiate an investigation within the five business day period following Mass. Electric's submittal of the results of the solicitation and the resulting retail rates. The regulations do not require that the contract entered into by Mass. Electric be subject to regulatory approval, and Mass. Electric has not included such a provision in its prior contracts. Once Mass. Electric executes a contract with a supplier, both Mass. Electric and the supplier would be bound by the contract. Based on feedback from its suppliers and potential bidders, Mass. Electric believes this contracting process represents best practices within the industry and provides the greatest benefit to its customers. Suppliers have told us that having contracts subject to regulatory approval creates significant market risks for them that they have to factor into their decision to bid or into the prices that they bid. In some cases, suppliers may elect not to bid in response to the RFP. This could limit the pool of potential bidders and thus reduce competition. In other cases, suppliers have told us that they would bear the risk, but reflect it in a higher Default Service price. Accordingly, Mass. Electric would not propose to make its monthly procurement agreements subject to after-the-fact regulatory review.

Mary L. Cottrell, Secretary

May 28, 2003

Page 5

Service policy objectives. Quarterly procurements can be implemented with little increase in cost or change in the existing procurement process. Mass. Electric also believes that a process of more frequent procurements is achievable, but would require the Company to make significant changes in its procurement system and processes.

Thank you very much the opportunity to provide these initial comments.

Very truly yours,

Amy G. Rabinowitz

cc: Service List

**ATTACHMENT 1**  
**TYPICAL DATA PROVIDED TO DEFAULT SERVICE BIDDERS**

1. Historical hourly loads for Default Service

This consists of:

- Aggregated hourly loads, with and without losses, for the period March 1998 – October 2000;
- Aggregated hourly loads by customer group, with and without losses, for the period November 2000 – February 2003;
- Aggregated hourly loads by customer group and load zone, with and without losses, for the period March 2003 – present.

Source: Load Estimation System

2. Historical customer counts for Default Service

This consists of:

- Aggregated number of accounts with supplier id = Default Service, as of Cycle 21 billing, by rate class, for the period March 1998 – February 2003;
- Aggregated number of accounts with supplier id = Default Service, as of Cycle 21 billing, by rate class and by load zone, for the period March 2003 – present.

Source: Customer Information System

3. Historical loads for Competitive Service

This consists of copies of Mass. Electric's Form 110 that is filed with the Massachusetts Department of Energy Resources. Since this report is submitted monthly, it may provide sufficiently timely information for monthly procurements.

4. Historical customer counts for Competitive Service

This consists of:

- Aggregated number of accounts with supplier id = Competitive, as of Cycle 21 billing, by rate class, for the period March 1998 – February 2003;
- Aggregated number of accounts with supplier id = Competitive, as of Cycle 21 billing, by rate class and by load zone, for the period March 2003 – present.

Source: Customer Information System

5. Additional data elements as deemed necessary over time

**ATTACHMENT 2**  
**EXAMPLE OF PROCUREMENT SCHEDULES**

	Monthly Procurements *	Quarterly Procurements	Semiannual Procurements
Service Commencement Date	May 1, 2004	November 1, 2003	November 1, 2003
Procurement Complete / Rates Posted	April 1, 2004	October 1, 2003	October 1, 2003
Filing of Rates / Results With MDTE	March 22, 2004	September 23, 2003	September 23, 2003
Bids Due / Contracts Executed	March 16, 2004	September 10, 2003	September 10, 2003

\* Assumes availability of internet-based communication tool/website and associated IT applications approximately eight months after Department issues final ruling requiring monthly procurement process.